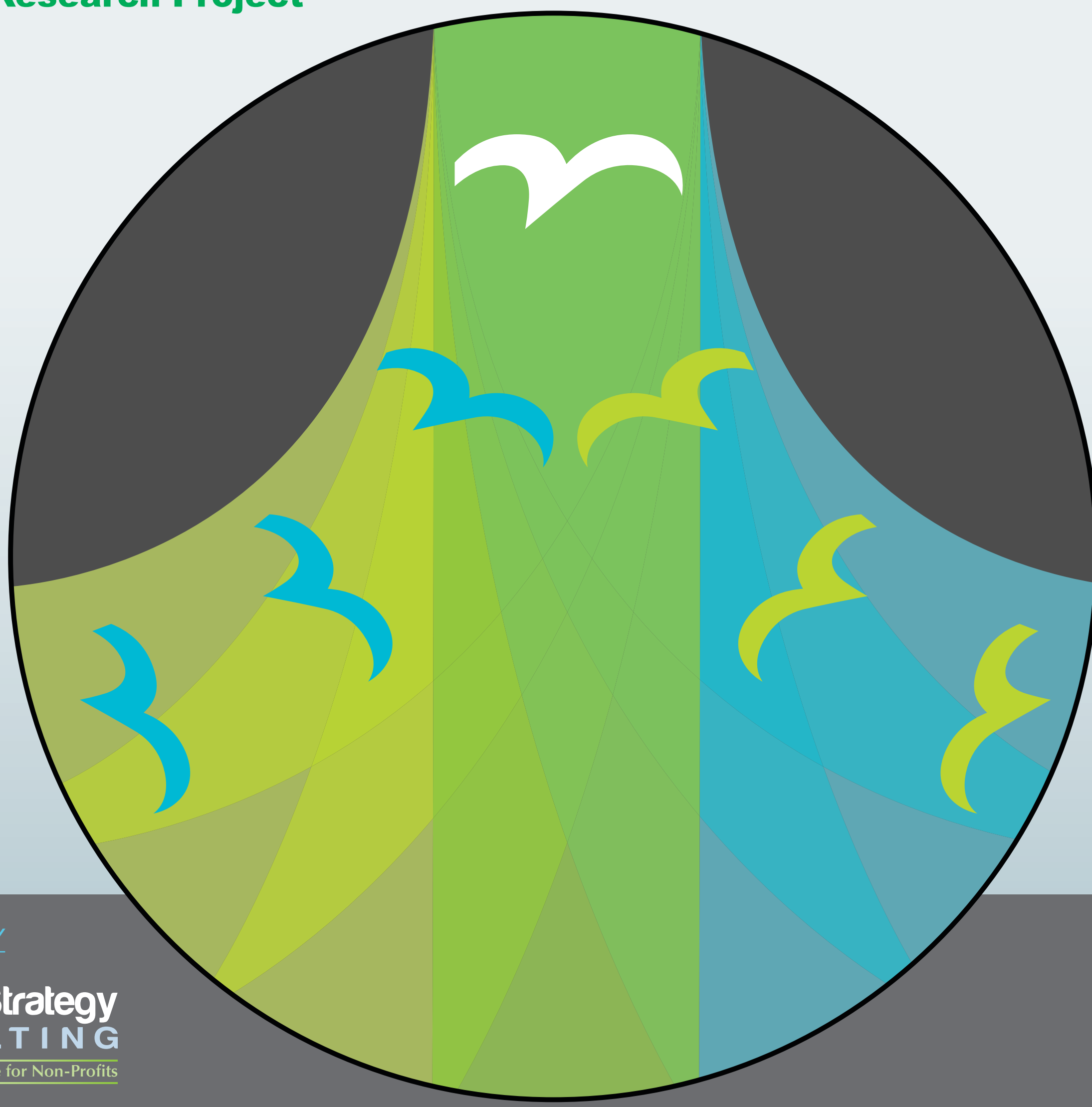
EXECUTIVE SUMMARY

To download full report, go to www.ChicagoNPMergerStudy.org

MERGERS AS A STRATEGY FOR SUCCESS

2016 Report from the Metropolitan Chicago Nonprofit Merger Research Project

Donald Haider
Katherine Cooper
Reyhaneh Maktoufi



REPORT COMMISSIONED BY

Mission + Strategy CONSULTING
Accelerating Social Value for Non-Profits

LEAD SPONSOR

POLK BROS FOUNDATION
a foundation for chicago families

FISCAL SPONSOR

chicago foundation for women

RESEARCH PARTNER

Northwestern Kellogg School of Management

EXECUTIVE SUMMARY

The purpose of this study is to explore how nonprofit organizations can use mergers as an effective and powerful tool to achieve their goals, advance their mission, and increase their impact. The study analyzes 25 nonprofit mergers that took place in the Chicago metro area between 2004 and 2014 and highlights the diverse paths these organizations took to arrive at positive outcomes.

In 88 percent of the mergers, participants felt that the post-merger organization was better off than the acquiring or acquired organization.

While nonprofit mergers have been researched elsewhere (recent studies examine mergers in California, on the East Coast, and in Minnesota), this report marks the first look at mergers in the Chicago metro region. We built on these earlier studies and have added elements and concerns not previously addressed. One notable distinguishing feature is an examination of four cases, in addition to the 25, of mergers that did not complete.

In presenting our findings, we aim to help nonprofits and their partners in the foundation world learn how to better utilize merger strategies. The timing is right: the continuing fallout from the recession and the poor economic health of the State of Illinois will have negative effects on nonprofit revenues for some time. Organizations may need to seek out other strategies, including mergers, if they wish to grow, improve services, and become more effective—or, in some cases, just remain viable.

Through interviews with merger participants, the study offers a qualitative analysis of the entire merger process. It covers:

- Why the organizations sought to merge
- How the participants went about finding an appropriate partner
- How they conducted negotiations
- How they met the challenges that occurred along the way in order to achieve positive outcomes
- What their post-merger organizations look like

Above all, the study reveals that mergers don't follow a set course: each one is unique. Every organization has its own set of goals, circumstances, and personalities. A successful merger is one that meets the needs and goals of all the parties involved and leads to improved services or increased impact.

Though the mergers presented here varied in type, process, and degree of success, all the study participants had invaluable observations and suggestions that can be used to guide organizations contemplating merger. In fact, these observations and suggestions serve in this study as a key tool to educate nonprofits, funders, and others about successful merger strategies.

Purpose and Goals

This study analyzes the use of merger strategies and their impact and outcomes in order to provide nonprofits and their funders with the information they need to conduct, support, and promote mergers that advance mission goals.

Major goals of the study are to educate nonprofits and funders about how mergers can be used to achieve mission and increase impact;[1.] to raise awareness and educate nonprofits about different kinds of merger strategies; to determine how to increase strategic, successful mergers within the metropolitan Chicago nonprofit sector; and to show how grantors and grantees can work together to bring about mergers with positive outcomes.

---

1. To learn about types of restructuring other than nonprofit mergers, please refer to the bibliography in the Nonprofit Merger Toolkit.

Methods

The study analyzes nonprofit mergers that occurred in the Chicago metropolitan area between 2004 and 2014. We conducted more than 100 interviews with key participants in 25 completed mergers, including participants from both acquiring and acquired organizations. The interviews covered the three stages of a merger: pre-merger, merger negotiation, and post-merger. We also examined four additional cases that did not result in completed mergers.

Findings were derived primarily from two methods:

Survey data generated from the interviews. All participants were asked the same questions from a questionnaire developed by our research team. The responses enabled us to compare and contrast mergers across a range of nonprofits; identify the motivations, challenges, actions, and outcomes that our respondents had in common; and identify important factors that led to variations in the merger experience.

In-depth case studies of 5 mergers from among the 25 cases. By conducting a deeper exploration of five mergers, we could more closely identify factors and elements that contribute to highly successful mergers.

Key Findings

Though this study presents a predominantly qualitative analysis, the survey enabled us to quantify some of our key findings. Our most important finding was that in 88 percent of the mergers, in terms of achieving organizational goals and increasing impact, interviewees from both the acquired and the acquiring nonprofits felt that the organization was better off after the merger.

On the question of why the participants sought out mergers, almost all merger participants cited growth as their primary merger goal, including those experiencing financial challenges. Further, most sought either more efficient/higher quality services or to expand their operations into new or different services.

Other significant findings include the following (in chronological order based on the merger process):

- In 60 percent of the cases, the acquiring organization had experienced a prior merger.
- In 80 percent of the cases, a prior relationship or collaboration existed between the organizations that merged.
- In 60 percent of the cases, the acquired organization initiated the merger discussion.
- In 80 percent of the cases, the merging parties engaged a third party consultant or facilitator.
- In 85 percent of the cases, the board chair or a board member from one of the organizations emerged as the chief merger advocate.
- In 44 percent of the cases, donors paid part or most of the merger costs.

Critical Issues in Merger Negotiations

The critical issues were:

- Finding the right partner is a challenge
- Staff retention difficulties arose in almost all cases
- Program continuation and legacy concerns can be difficult
- Board member transition and retention to the merged organization is commonly an issue
- Liabilities must be carefully investigated and vetted to determine their impact on the future organization
- CEO/ED succession can be contentious and even controversial between organizations
- The naming and branding of the new organization is often a difficult issue[2.]
- Integration requires careful planning between the parties
- Funder involvement produced mixed responses from participants

[2.] Milway, et al., "Why Nonprofit Mergers Lag."

Mergers can be used strategically by all parties not simply to grow or survive but to accomplish specific mission goals and increase impact.

Understanding the thorny issues that arise during the merger process and learning how these issues have been successfully resolved can be extremely helpful for those considering or engaged in a merger. This study highlights what the participants considered to be the most significant issues/challenges and relates how those challenges were addressed.

These issues consistently arose across the merger cases, sometimes threatening to derail the process. As will be seen, the resolutions achieved by the study participants include a wide variety of options and alternatives.

Ten Keys to Merger Success

As a vital way to educate nonprofits on how to achieve positive merger outcomes, we decided to “ask the experts” for advice—in this case, not academics or consultants, but our interviewees: nonprofit leaders who had themselves gone through the merger process. We asked study participants to divulge the most important factors for success, based on their own experience. The most common themes that arose were the following:

1. Trust is the glue that holds together all other issues in merger negotiations.
2. Mission, mission, and more mission: the most successful mergers are mission-driven.
3. In the most successful mergers, all parties are clear about their organization’s overall goals and use the merger as a strategy to achieve those goals.
4. Know yourself and know your counterpart: participants should make sure to acquire as much information as possible about their potential partner.
5. The CEO is often critical in prompting discussions about a merger strategy, especially when the CEO position is in transition.
6. Boards/board chairs must be merger advocates for mergers to succeed.
7. Staff involvement, particularly management, is critical to the success of a merger and certainly to post-merger integration.
8. Leaders must pay attention to cultural alignment, pre-merger and in the merger integration process, if the merger is to succeed.
9. Most successful mergers rely on outside experts, who may include attorneys, accountants, merger facilitators, and/or others.
10. Mergers participants must do their homework regarding all aspects of the process and become familiar with merger strategy.

Recommendations for Merger Participants

In addition to offering advice to organizations, participants were also asked to offer their recommendations for specific players—board, executive staff, and foundations—in the merger process.

Recommendations to board members included the following: adherence to mission; clarity in merger purpose; be prepared to lead and manage the merger process; seek outside expertise.

Recommendations to CEOs and executive staff included the following: prep your board on the critical issues your organization faces as it goes through the merger process: set a vision for the merger with clear objectives and expectations.

Recommendations for funders included the following: more transparency and greater clarity regarding funder policies on mergers and merged organizations; greater financial support to help merging organizations navigate the process; better communication and collective action among funders and merger supporters; proactive use of leadership experience and wisdom of those who have gone through a successful merger with those who are new to the strategy.